CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM
STATEMENT OF INVESTMENT POLICY

FOR
ALTERNATIVE INVESTMENT MANAGEMENT (AIM) PROGRAM

~~October 17, 2005~~~~April 14, 2006~~May 15, 2006

This Policy is effective immediately upon adoption and supersedes all previous Alternative Investment, Alternative Emerging Investment, and Private Investment Policies.

I. PURPOSE

This document sets forth the investment policy ("the Policy") for the Alternative Investment Management (AIM) Program ("the Program"), as defined in the AIM Program Strategy ("the Strategy") and AIM Annual Plan. The design of this Policy ensures that investors, managers, external resources, or other participants selected by the California Public Employees' Retirement System ("the System") take prudent and careful action while managing the Program. Additionally, use of this Policy provides assurance that there is sufficient flexibility in controlling investment risks and returns associated with this segment of the market. Additional specific information regarding program management may be found in the AIM Program Process Manual available from AIM Staff.

II. STRATEGIC OBJECTIVE

Maximizing risk-adjusted rates of return while enhancing the System's position as a premier alternative investment manager is the strategic objective of the Program.

The Program shall be managed to accomplish the following:

A. Enhance the System's long-term total risk-adjusted return;

B. Enhance the System's reputation as a premier alternative investment manager and "investor of choice" within the private equity community;

C. Hedge against long-term liabilities;

D. Provide diversification to the System's overall investment program; and

E. Consider solely the interests of the System's participants and their beneficiaries in accordance with California State Law and the Prudent

Expert Standard as defined in Section II of the System's Investment Policy.

III. RESPONSIBILITIES AND DELEGATION

A. The **System's Investment Committee** ("the Investment Committee") shall approve and amend the Policy, approve the Strategy and AIM Annual Plan, oversee performance, delegate decision making to the System's Investment Staff ("the Staff") as appropriate and authorize those investment and other decisions which have not been delegated to Staff.

B. Staff duties include, but are not limited to, the following:

1. Make recommendations to the Investment Committee concerning the Program Strategy, Annual Plan, and Policy changes.
2. Manage day-to-day operations; retain, supervise and delegate work to the external resource(s) as appropriate, which may include overseeing due diligence activity.
3. Screen, evaluate and approve investment proposals that meet delegated authority guidelines.
4. Screen, evaluate and recommend investment proposals to the Investment Committee that are beyond the scope of Staff's delegated authority.
5. Monitor and report on Program performance.
6. Market the Program.
7. Manage on an ongoing basis the spring-fed pool of external resources and notify the Investment Committee of changes in its composition.
8. Report any deviations from the Policy to the Investment Committee.

C. **External Resource(s)** ("external resource(s)") shall be retained as part of a spring-fed pool. Their primary purpose shall be to serve as an extension of Staff. External resources may include management consultants, accountants, industry specialists, traditional pension fund consultants, investment bankers, or industry experts. The Staff shall direct and manage the activities of the external resources.

D. **Outside Experts** ("outside experts") may be utilized, as appropriate, to provide specialized expertise in various disciplines, on a one time basis in support of the external resource pool.

IV. LONG-TERM AND SHORT-TERM PERFORMANCE OBJECTIVES

A. Long-Term Performance Objective

The long-term expected performance objective of the Program shall be the 10-year rolling average for the total return of the CalPERS Wilshire 2500 Index plus a ~~500~~300 basis point risk premium. The performance objective is net of fees and expenses.

Use of the CalPERS Wilshire 2500 Index reflects the opportunity cost of investing in alternative investments versus publicly traded common stocks. The 10-year rolling average smoothes short-term volatility, is intended to cover at least one complete market cycle, and is consistent with the anticipated average term of the partnership investments and the expected average holding period for direct investments.

B. Short-Term Performance Objective

In order to address differences between the long-term performance objective and young or immature partnership investments, the System shall use a short-term performance objective more appropriate to immature partnership investments as a monitoring device. The Program partnership performance shall be compared to Venture Economics Information Services ("Venture Economics") young fund median returns by vintage year. "Young fund and short-term" shall be defined as the first four years of each individual partnership and the partnership composite portfolio. Exceeding the Venture Economics young fund universe median return, or ranking in the top 50% of the sample universe as weighted by AIM Partnership portfolio actual sub-asset holdings over the most recent four years is the short-term performance objective.

The short-term performance objective addresses characteristics of young or immature partnership investments that differ from the long-term rolling ten-year CalPERS Wilshire 2500 Index plus 3~~5~~% performance objective.

These different characteristics include young partnerships with a shorter time frame, reduced liquidity, and lack of marking-to-market due to a low number of realizations in the early years. Another characteristic unique to young or immature partnership investments includes the "J-curve effect," which results in low or negative returns due to payment of annual management fees during a period when investments are typically carried at cost and returns have not yet been realized. Partnership investments require time to achieve realizations. Venture capitalists require time to build companies and develop value, and turnaround/corporate restructuring managers also require time to implement strategic, financial, and managerial improvements.

V. INVESTMENT APPROACHES AND PARAMETERS

A. General Approach

Under the Program, the Staff shall review and manage investments utilizing a specialized management strategy that shall be disciplined and opportunistic.

Staff shall manage the Program as a whole with specific criteria appropriate to partnership and direct investments. Investment opportunities will be classified as partnership investments when decision-making and management discretion is granted to outside managers. Investment opportunities shall be classified as direct investments if the System retains discretion and manages the investment internally or through its external resource(s).

“Top down” strategic assessments shall identify portfolio weightings and identify the most attractive segments of the market for investing. Based on these assessments, the Staff shall proactively seek out the most attractive investment opportunities, while maintaining appropriate diversification.

B. Program Annual Plan

The Investment Committee and Staff shall review the program annually via the Annual Plan process. The Staff shall develop an Annual Plan each year and present it to the Investment Committee for approval. The Annual Plan shall be based upon broad economic structural analysis, market conditions, and a review of the existing portfolio. The Annual Plan shall detail tactical priorities, costs, resource requirements, marketing plans, strategy enhancements, and other objectives.

C. Program Strategy

The Program Strategy shall be revised periodically as appropriate and updated annually through the Annual Plan.

The Strategy shall contain the following elements:

1. Program goals and objectives;

2. Structure and management of the program;

3. Strategic approach to the asset class;

4. Roles and responsibilities; and

5. Resource requirements.

D. Management of Partnership Investments

The Program shall be continually refined to obtain the most effective mix of investments. The Program shall invest in traditional partnership investments, and, as appropriate, funds employing other structures. Partnerships shall be continually assessed for effectiveness in the following areas:

1. Fit with the Annual Plan;

2. Pace and timing of investment commitments, funding and return of capital;

3. Diversity of sectors (industry, geographical, investment style, and others as appropriate);

4. Performance according to stated objectives specific to the investment; and

5. Performance relative to the short-term monitoring benchmark and to the long-term performance objective, as appropriate.

E. Management of Direct Investments:

The Program shall utilize two types of direct investments: Co-Investments, and Independently Sourced Investments.

1. **Co-Investments** are direct investments by the System together with an existing general partner. The System may invest in the same security or a different security than the general partner. The investment may be with a partnership in which the System has invested or it may be from another partnership sponsored by the same general partner.

2. **Independently Sourced Investments** come to the System through contacts other than the general partners with which the System has invested. The System shall avoid competing directly with its general partners in this segment.

F. Management of Strategic Investment Vehicles

Strategic Investment Vehicles shall include innovative structures that provide a cost effective means to access investment opportunities, exploit the System's strengths, and achieve the maximum risk-adjusted rates of return. Strategic Investment Vehicles may include partnership and/or direct investments.

G. Transaction Processes

1. The Program shall process transactions efficiently. To accomplish this, the Staff shall serve as the "point of contact" regarding all transactions flowing through the System. The Staff shall direct and coordinate the activities of the Program's external resource(s) on a day-to-day basis. The Staff will then be able to monitor and control the process and ensure that due diligence standards are maintained. Additionally, Staff will play a significant role in marketing the program.

2. For Partnerships, the policy goal will be to maintain timely responses to proposals and to process them efficiently and effectively. Partnerships in which the System is already an investor shall be subject to an expedited due diligence process that combines the on-going monitoring assessment with an update of the original due diligence. New partnerships that warrant consideration shall face a full due diligence review. Section VIII.A. contains an outline of the process for evaluating Partnerships.

3. Direct Investments shall also be addressed in a timely fashion. Section VIII.B. contains an outline of the process for evaluating Direct Investments.

4. Strategic Investment Vehicles shall also be processed in a timely manner. Underlying investments shall be evaluated relative to partnership and/or direct investment due diligence criteria as appropriate.

H. Quality Control Processes

The Program shall employ a quality control process, which includes both the Staff and external resource(s) to monitor Program efficiency, track investment performance, and control risk.

1. Process Monitoring - Staff monitors transaction processing to insure timely decision making and an effective process.

2. Monitoring Portfolio Performance - Actual returns are compared to the short and long-term benchmark as appropriate, and to the expected return for the investment.

3. Risk Control - Program standards are maintained through the following processes:

   a. Assessing the level of diversification in the portfolio on a continual basis, including the level of diversification across investment style, geographic distribution, industry concentrations, and across other ranges as appropriate.

   b. Tracking and monitoring due diligence activity and reviewing the external resource's due diligence, monitoring activities and their internal policies and procedures.

   c. Identifying problems early and taking corrective action quickly.

I. Specific Risk Parameters

1. Financial Risk: Alternative investments often employ a greater use of leverage (borrowing), which may lead to a greater volatility in returns. For example, in leveraged buyouts, partnership and direct investments use above average borrowings in their capital structure.

2. Operating and Business Risk: Certain alternative investments entail above average operating and business risk. For example, venture capital investments often entail risks associated with developing new products, establishing new markets, and having untested and incomplete management teams.

3. Liquidity Risk: Alternative investments lack liquidity and typically have time horizons of 5-to-10 years. Secondary markets for such investments are very limited; and, often, there is no current income. The ability to negotiate specific "exit" rights (e.g., registration rights, puts and calls), are generally applicable to direct transactions.

4. Country Risk: Political, economic, and currency risks associated with investing outside of the U.S.

5. Structural Risk: The System negotiates and structures specific fundamental rights and protections, which include mechanisms for taking remedial action. These basic protections include advisory

committee participation and specific termination provisions in partnership transactions and anti-dilutions, put and call options, voting rights for material events, and other covenants and governance provisions in the case of direct investments.

6. Valuation Risk: Partnerships shall be evaluated to determine if the general partner employs an appropriate valuation discipline. For direct investments, the Staff shall review valuations to determine if they are reasonable.

7. Investment Evaluation Standards: Depending on the form and character of the investment, the Program sets minimum standards for each investment.

J. Guidelines for Evaluating Proposals

Proposed partnership, direct investment, and strategic investment vehicle opportunities shall be evaluated relative to their fit with the Program's Strategy and Annual Plan.

Exhibits 1 and 2 contain outlines of specific guidelines for partnerships and direct investments, respectively. Strategic investment vehicles shall be evaluated according to the underlying structure of the investment, which may include partnership and/or direct investments.

K. Types of Investments

The System shall consider any appropriate investment opportunity with the potential for returns superior to traditional investment opportunities, and not otherwise prohibited by the System. Investments shall generally fall within the categories defined below.

1. Buyout and Corporate Restructuring Capital: Investments in leveraged buyouts, management buyouts, equity buyouts, employee buyouts, buy-and-build, other acquisition strategies and restructurings, and related uses of capital.

2. Expansion Capital: Investments in established companies for the purpose of growing their businesses.

3. Venture Capital: Investments in relatively small, rapidly growing, private companies in various stages of development.

4. Energy and Natural Resources: Investments in the exploration, extraction, accumulation, generation, movement or sale of energy

(e.g., oil, gas, coal, electricity), and other natural resources and related service companies.

5. Distressed Securities: Debt or equity securities investments in troubled companies, under the assumption that the securities will appreciate in value following a restructuring of the company's obligations. This includes, but is not limited to, investments in companies that are insolvent or unable to pay their debts as they come due. This may include companies subject to the Bankruptcy Reform Act, specifically Chapter 7 (Liquidation) and Chapter 11 (Reorganization), and companies under-going restructurings outside of Bankruptcy Court.

6. Turnarounds: Investments in companies experiencing financial or operating difficulties. These companies may or may not be insolvent.

7. International: Investments that are located in foreign countries or have significant portions of their operations outside of the United States. International investments shall also be considered with respect to their specific type (e.g., corporate restructuring, venture capital, and so forth).

8. Special Situations: This includes all other types of investments, e.g., mezzanine strategies, active minority positions, hedge funds, secondary investments, governance strategies, industry specific strategies, and unconventional investments such as debt arrangements, collateralizations, corporate joint ventures, credit enhancements, leasing, off-balance sheet financings, secondary market opportunities, and other types.

VI. BENCHMARKS

The Long-term Benchmark shall be the 10-year rolling average for the total return of the CalPERS Wilshire 2500 Index plus a ~~500~~300 basis point risk premium. The Long-term Benchmark is net of fees and expenses.

The Short-term Monitoring Benchmark for AIM partnerships shall be to exceed the Venture Economics Young Fund Universe (past four years) median return, or to rank in the top 50% of the sample universe as weighted by AIM partnership portfolio sub-asset holdings over the most recent four years. This analysis shall include performance comparisons by vintage year within each sub-asset class. The System shall use the monitoring benchmark as an early warning device to point out performance for further investigation and possible intervention.

VII. GENERAL

A. REPORTING

1. Reports received from Investment Partners

   Staff shall require periodic reports from investment partners to facilitate monitoring and which are appropriate for the specific transaction.

2. Monitoring Investments

   Staff shall monitor individual partnerships, direct investments and the portfolio as a whole. Monitoring includes diversification across alternative investment types and programs to assure an appropriate mix.

3. Performance

   a. Partnership Investments

      The System shall assess the performance of partnerships relative to the following areas:

      (1) Objectives established by the partnership or the principals managing the investment (actual financial performance as compared to original plan)

      (2) Risk undertaken

      (3) Performance of other similar investments

      (4) The short-term monitoring benchmark for partnerships in the first four years of their term

      (5) The long-term performance objective, with appropriate interpretation if applied to the short-term.

   b. Direct Investments

      The System shall assess the performance of direct investments relative to the following areas:

      (1) Actual financial performance of a company compared to the business plan and strategy

(2) Risk undertaken

(3) The performance of the company against its pro forma operating results, its industry and the total Program portfolio

c. Strategic Investment Vehicles

The System shall assess the performance of Strategic Investment Vehicles according to original plan and partnership and direct investment criteria as appropriate.

4. Investment Committee Reports

Quarterly and annual reports shall be provided to the Investment Committee. These reports include, but shall not be limited to, reviews of investments and their performance.

VIII. SPECIFIC CONSIDERATIONS

A. PARTNERSHIP INVESTMENT GUIDELINES

1. **Minimum Requirements/Investment Styles**

a. The principals shall demonstrate relevant experience in or directly applicable to the market in which they propose to work.

b. The principals shall demonstrate that they are specifically qualified to pursue the proposed strategy in the market in which they propose to work.

c. The principals shall demonstrate the requisite skills and experience necessary to execute successfully the proposed strategy, including evidence from similar endeavors of their ability to work successfully together.

d. The principals shall dedicate sufficient time and effort to the proposed opportunity and make, within the context of the particular investment, a meaningful personal financial commitment.

e. The proposed strategy and business plan shall be set forth in sufficient detail to permit substantive and meaningful review of the opportunity, verification of the investment concept, and of the risk factors.

f. The proposed strategy and business plan shall provide reasonable assurance that the investment opportunity can produce the required return.

g. The risk/reward trade-off in the particular market that is addressed by a partnership proposal shall be attractive, based on reasonable assumptions.

2. **Evaluation Criteria**

Primary emphasis will be on the quality and experience of the general partners in a partnership investment. Additional factors may include, as appropriate:

a. Fit with the Program Strategy, Annual Plan, and within the overall AIM Portfolio.

b. A unique strategy that is not competitive with existing investments.

c. Integrity of the general partner, its employees, and other investors.

d. Quality of overall partnership governance, management of the partnership, including controls and reporting systems.

e. Specific objectives.

f. Relationship with the relevant parts of the investment community

g. Relationship with limited partners

h. Nature of value added involvement

i. Potentials for co-investments

j. Creativity of the general partners

k. Past financial performance

l. Reasonable ratio of investees to general partners

m. Reasonable ratio of committed capital to general partners

n. Appropriateness of terms and conditions and alignment of interests with limited partners

3. **Due Diligence**

A due diligence review by Staff and external resource(s) selected for reviewing a transaction shall include the following, when applicable:

a. Discussions with principals of the proposed investment.

b. Review and analysis of all pertinent offering documents including: offering memorandums, subscription agreements, private placement memorandums and operative investment agreements.

c. Consideration of potential conflicts of interest, if any, posed by the proposed investment and prior investments and activities of the principals.

d. Review and analysis of the investment concept, including entry and exit strategies and terms including fees, principal participation, and structure.

e. Review and analysis of the fit within the AIM Program, including fit with the Strategy, Annual Plan, other constraints and guidelines, and compliance with applicable investment policies.

f. Review of news articles, principals, prior investments, and concepts.

g. Background and reference check of principals.

h. Review and analysis of track record including performance of prior and current investments.

i. Consideration of relative size of the proposed investment.

j. Investigation of special terms and side letter agreements with past or present investors.

k. Any analysis of the competition between a given proposal and an existing preferential relationship or alternative asset, which may include, but is not limited to, a review of the following: the size of the industry, the segment of the industry, and the deal flow for both the preferential relationship and the proposed investment.

l. Review of any lawsuits, litigation involving the general partner, its principals, employees and prior funds.

4. **Legal Constraints**

a. Unrelated Business Taxable Income (UBTI): Partnerships are structured to minimize UBTI.

b. Registered Investment Advisor (RIA): Investment advisors retained by the Board are so registered or comparable procedure is established.

c. Regulatory (i.e. FCC, SEC, FTC).

5. **Other Parameters**

a. Types of Allowable Investments: Any appropriate investment opportunity which has the potential for returns superior to traditional investment opportunities and which is not otherwise prohibited by The System.

b. Terms and conditions: Fees, preferred returns, profit splits, and other terms and conditions are negotiated as appropriate and when prudent. Partnerships will be prohibited from investing in real estate without approval by The System.

c. Use of Fund's name: Staff and external resource(s) identify any submitted investment opportunity containing as part of its name or title any reference to the System and immediately inform the proposer that inclusion of such a reference or use is inappropriate and unacceptable to the System and require that it be removed.

d. Hostile Transactions: The System maintains the right to examine transactions which might be construed as hostile transactions, with the right to decline participation.

B. DIRECT INVESTMENT GUIDELINES

1. Minimum Requirements

a. Management shall have compiled relevant business and management experience.

b. The entity in which the investment made shall be appropriately capitalized in the relevant circumstances.

2. Evaluation Criteria

Primary emphasis shall be on the following:

a. Integrity of the general partner, its employees, and other investors.

b. The historical and prospective financial condition of the company.

c. The market position of the company, including its relative competitive position within the industry.

d. The growth prospects of the company and its industry in light of existing and anticipated economic conditions.

e. The underlying stability of the company's business.

f. The quality and sustainability of earnings, if appropriate.

g. The quality of the company's assets, such as manufacturing facilities, inventories, receivables, and other assets, including intangibles, essential to the company's operations.

h. Appropriate capital structure.

i. The quality, stability and experience of the management team, the Board of Directors, and other investors, including the quality of their interaction.

j. The quality of financial and operating controls and quality of reporting to management and investors.

k. The quality of the corporate governance.

l. The return potential of the investment, given its terms and conditions, compared to the perceived risks and the relative return/risk profile of comparable investments.

At a minimum, additional factors shall include the following:

a. The specific objectives and goals of the company and its management team.

b. The strategy to be employed to achieve the aforementioned objectives and goals. Management and investors should have a well thought-out plan for creating and realizing value from the company.

c. Controlling shareowner(s) and other institutional investors.

d. The relationship with the management team, the Board of Directors, other investors and any controlling shareowners.

e. Potential for future follow-on investment opportunities.

3. **Due Diligence**

For co-investments, Staff and external resource(s), if utilized, will rely heavily on the work of the general partner sponsoring the transactions, while conducting its own due diligence. Independently Sourced Investments will require a much more in-depth due diligence review because these investments do not come to the System through one of the existing general partners in the portfolio.

A due diligence review by Staff and the external resource if selected for reviewing a transaction shall include the following, when applicable:

a. Review of whether the proposed investment falls within the Strategy, Plan, constraints and guidelines, and if it complies with applicable investment policies.

b. A review and analysis of all pertinent offering documents, including offering memorandums, research reports, annual and quarterly reports, 10K, 8K, 10Q SEC reports and proxy statements.

c. A review and analysis of relevant research reports and news articles regarding the company, its management and its industry.

d. Background checks of the senior management team and any controlling shareowners.

e. A review of the company's historical financial operating results and present financial condition, including examination of auditor reports and possible interview of the auditor.

f. A review and analysis of the company's projected financial operating results with consideration given to the reasonableness of such projections and forecasts.

g. A review and analysis of any contingent liabilities, including potential liabilities related to anticipated legal action, environmental issues, under-funded pensions, taxes and insurance issues.

h. A review and analysis of the company's market position and its standing in its industry.

i. Third party reference checks with key suppliers, customers and, when advisable, competitors.

j. A review of the company’s instruments of indebtedness, corporate instruments, board minutes and any special agreements between the company and other major investors.

k. A review of the company's relationship with its employees, including labor contracts.

l. A review and analysis of all relevant regulations and regulatory reports, examinations and ratings regarding the company and its business sector.

m. On-site visits to the company's principal facilities and corporate headquarters.

n. Interviews with board members, senior management and controlling shareowners.

o. A review of the ownership structure, employee benefit plans and anti-takeover provisions.

p. An analysis of the competition between a given proposal and an existing preferential relationship or alternative asset, which may include, but is not limited to, a review of the following: the size of the industry, the segment of the industry, and the deal flow for the preferential relationship and the proposed investment.

q. In addition to the foregoing and depending on the circumstances surrounding a potential investment, Staff may utilize outside experts to provide further analysis and commentary as to the merits of a particular investment.

4. **Legal Constraints**

a. Unrelated Business Taxable Income (UBTI): Investments are structured to minimize UBTI.

b. Registered Investment Advisor (RIA): Investment advisors retained by the Board are so registered or a comparable procedure is established.

c. Regulatory (i.e. FCC, SEC, FTC)

5. **Other Parameters**

a. Method of Participation: The System generally participates as a preferred or common stockholder or as a senior or subordinated debt investor with a common stock participation.

b. Types of Allowable Investments: Any appropriate investment opportunity which has the potential for returns superior to traditional investment opportunities and which is not otherwise prohibited by The System.

c. Terms and conditions: Fees, preferred returns, profit splits and other terms and conditions are negotiated as appropriate and when possible.

d. Use of Fund's name: Staff and external resource(s) identify any submitted investment opportunity containing as part of its name or title any reference to The System and immediately inform the proposer that inclusion of such a reference or use is inappropriate and unacceptable to the System and require that it be removed.

e. Hostile Transactions: The System maintains the right to examine transactions which might be construed as hostile transactions, with the right to decline participation.

f. Corporate Governance

(1) Voting: The System shall maintain full voting rights with respect to any class of securities in which it might invest. When appropriate, the System may wish to participate as part of a voting trust agreement under which a third party (e.g., a lead investor) retains its proxy to vote the System's interests.

(2) Board of Directors Representation: As circumstances dictate, the System may wish to retain the right to have an independent representative or representatives of the System appointed to a portfolio company's Board of Directors. Furthermore, the Fund should allow the possibility to retain the right to have such representatives participate in select committees of such Board of Directors (e.g., Audit Committee, Executive Committee or Compensation Committee).

g. Board of Directors Visitations Rights: As circumstances dictate, the System should obtain the right to attend, as an observer, a portfolio company's Board of Directors meeting.

h. Board of Directors Composition: As circumstances dictate, the System should obtain agreements as to the composition of a Board of Directors, including guidelines on the number of outside Directors and the composition of key committees.

i. Special Voting Rights: As circumstances dictate, the System should obtain special class voting rights with respect to specific corporate governance matters such as proposals deemed contrary to the System's interests, for example, as in the case of hostile takeovers.

IX. GLOSSARY OF TERMS

Definitions for key words used in this policy are located in the Alternative Investment Management Program Glossary of Terms which is included in the System's Master Glossary of Terms.

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Asset Class Glossary: Alternative Investments Management
Policy: Alternative Investment Management Program
~~April 14, 2006~~May 15, 2006

Advisory Committee
A group of investors in the partnership whose primary functions are to address certain partnership-related issues. Based on the roles and responsibilities outlined in limited partnership agreement, the Advisory Board may review conflicts of interest, approve valuation policies, review operating budgets, vote on partnership term extensions, and perform other duties as deemed appropriate.

Alternative Investments
Investments that are privately-held and illiquid. These investments may include venture capital, growth equity, buyouts, mezzanine financing, and other investment strategies that are not based on public market activities.

Annual Plan
A strategic plan that provides details on tactical priorities for new investments together with a review of the existing portfolio. The first Annual Plan was approved by the Investment Committee on December 16, 1996.

CalPERS Custom Wilshire 2500 Index
The Wilshire 2500 Index, excluding Real Estate Investment Trusts (REITs) and tobacco stocks, and with dividends reinvested. The Wilshire 2500 comprises the top 2500 securities of the Dow Jones Wilshire 5000 Index, excluding REITs and tobacco stocks, based on market capitalization, and is reconstituted annually. The Dow Jones Wilshire 5000 is an index that measures the performance of all U.S.-headquartered equity securities with readily available price data.

Co Investment
A direct investment into a portfolio company by limited partners alongside the general partner and generally done so on similar terms.

Commitment
A general partner's or limited partner's legal obligation to provide a certain amount of capital to a partnership.

Corporate Restructuring (Buyouts)
Investments in the form of equity and/or debt of a public or private company designed to restructure the current capital structure of the company, including debt and equity buybacks, exchange offers and refinancings. Related terms include leveraged buyouts, management buyouts, employee buyouts, and buy-and-build strategies.

Direct Investment
An investment in which the System has ownership interest in a property or group of properties.

Distressed Securities
Debt or equity securities of companies that are in financial distress. These securities tend to trade at significant discounts and attract investors that perceive a turnaround.

Due Diligence
The process of investigating, evaluating, and analyzing a potential investment's characteristics, investment philosophy, and terms and conditions.

Employee Buyout
The purchase of a majority interest in a company by that company's employees.

Equity Buyout
An acquisition of a company for the purpose of restructuring its balance sheet by replacing existing debt with equity.

Expansion Capital (Growth Equity)
Investment in an established company for the purpose of growing its business.

External Resource(s)
Includes management consultants, accountants, industry specialists, traditional pension fund consultants, investment bankers, or industry experts.

General Partner
The manager of a limited partnership. The general partner has full responsibility for investing the capital. The general partner also bears personal liability for any lawsuits that arise from the investment's activities, but is often indemnified by the fund.

Hostile Transactions
Transactions opposed by the board of directors of the target company.

Independently Sourced Investment
A type of direct investment which is sourced through contacts other than the general partners with which the System is invested.

Leveraged Buyout
The purchase of all or part of the stock or assets of a company through the use of debt with some equity capital. The company may be privately or publicly owned, or a subsidiary or division of a privately or publicly owned company.

Limited Partner
An investor in a limited partnership. Limited partners provide the capital, but have no direct involvement in the day-to-day management of the fund. Limited partners have limited liability, but also have limited control over the management of the fund.

Management Buyout
Purchase of all of a company's publicly held shares by the existing management,

which takes the company private. The financing structure may involve a significant amount of borrowed capital (thus resembling a leveraged buyout), or may have a more balanced debt and equity mix if equity financing is available to management.

Management Fee
The fee paid to the general partner to cover the expenses of managing a fund. Fees cover expenses such as salaries, travel and office expenses, and costs of developing and monitoring investments. Management fees are typically paid out of a fund's committed capital and are generally returned before the profit is split with the general partner.

Preferred Return
A term in the partnership agreement that describes a minimum return that is paid to the limited partners before the general partner receives any share of the profits.

Return
A measure of the total performance of an investment over a designated time period. The return calculation for private equity is typically based on the internal rate of return, net of all fees and expenses.

Risk
A measurable probability of losing or not gaining value. Risk is differentiated from uncertainty, which is not measurable. Risk in this context is also referred to as "standard deviation", which is a statistical measure of the degree to which an individual value in a probability distribution tends to vary from the mean of the distribution.

Special Situations
A term used to describe non-traditional investment strategies that are typical in private equity. Such non-traditional investment strategies include, but are not limited to, mezzanine strategies, active minority positions, governance strategies, sector-specific strategies, and other strategies that may use unconventional instruments such as debt arrangements, collateralizations, corporate joint ventures, credit enhancements, leasing, off-balance sheet financings, etc.

Term
The duration of the partnership or direct investment.

Transaction
An agreement between a buyer and a seller to exchange an asset for payment. A transaction often takes the form of a partnership, co-investment, or direct investment.

Turnarounds
Investments in companies experiencing financial and/or operating issues. These companies may or may not be insolvent.

Unrelated Business Taxable Income (UBTI)
Income regularly generated by a tax-exempt entity by means of taxable activities. This income is not related to the main function of the entity, but is needed to generate a small portion of income.

Venture Capital
The financing of rapidly-growing companies that do not have access to public equity or debt financing. Early-stage venture capital may involve financing a company during its initial years when assets may be limited and when there may be no revenues. Late-stage venture, sometimes referred to as growth equity or expansion capital, may involve financing a company that has established products or services and revenues.

Vintage Year
The year in which the first capital drawdown of the partnership occurs.